Minutes

Meeting of Special Commission to Investigate Other Post-Employment Benefits

Charles River Room, One Ashburton Place, Boston, MA

October, 2012

Attendees

Commission Members:

Henry Dormitzer, Co-Chair of the Special Commission

Anne Wass, Co-Chair of the Special Commission

Representative Frederick Barrows

Shawn Duhamel, Retired State, County, and Municipal Employees Association of Massachusetts

Al Gordon, Designee of Treasurer Steven Grossman

Senator John A. Hart

Senator Michael R. Knapik

Gregory Mennis, Assistant Secretary for Fiscal Policy, Designee of Secretary of Administration and Finance Jay Gonzalez

Dolores Mitchell, Executive Director of the Group Insurance Commission

Daniel Morgado, Shrewsbury Town Manager, Massachusetts Municipal Association

Andrew Powell, Massachusetts AFL-CIO

Representative John Scibak, House Chairman of the Joint Committee on Public Service

Other Participants:

Tom Vicente, Aon Hewitt

Daniel Rhodes, Segal Co.

Kathleen Riley, Segal Co.

David Czekanski, Group Insurance Commission

Catharine Hornby, Group Insurance Commission

Bob Johnson, Group Insurance Commission

Minutes:

Henry Dormitzer, Co-Chair of the Commission, called the meeting to order. Minutes of the September 25, 2012 meeting were approved.

Mr. Dormitzer said that the Commission is entering a high frequency period and that the hope of today's meeting is to revisit the introduction to the Commission's report, receive information from Aon Hewitt, and tie up loose ends from previous meetings. He said that at the end of the meeting, the Commission would review a list of proposed considerations and make sure nothing was missing.

Mr. Dormitzer presented proposed principles and considerations, which he said would become the introduction to the Commission's report and which took into account comments from the last Commission meeting. Mr. Dormitzer noted that the phrase "urgent need for sustainable government" had been changed from the last meeting.

He said that Commission members had asked what "commitment to intergenerational equity" means, and "avoid shifting costs onto future generations" and "honor health care promise to retired career employees" had been added to clarify. Dolores Mitchell said that the principle was not so much honoring a promise but providing decent health care. She said that it is the content and not the promise that matters.

Representative Frederick Barrows asked whether, to make that statement, the Commission needed to sort out the issue of part timers. Representative Barrows asked whether a part timer is a career employee and said, in his view, a full time employee is a career employee. Ms. Mitchell said that there are part timers out of choice and part timers out of necessity, including those who are mothers with children at home and those who cannot find full time work. Ms. Mitchell said that the Commission could debate whether ten years of service is enough. Anne Wass said that this is a global issue and will be a piece to look into in the report. Mr. Dormitzer said that offering full time credit to part time employees may be a financial challenge.

Andrew Powell asked that "competitive compensation packages to attract employees" be changed to "competitive compensation packages to attract and retain employees" and said that retiree health care is a retention issue as well. Mr. Dormitzer said that retention is what makes career employees.

Mr. Dormitzer said that the fourth principle, "alignment with recent changes to state and federal health care programs," is focused on access and cost control. Greg Mennis said that he really liked this part because it focuses both on the numbers and the people behind the numbers.

Mr. Dormitzer moved to the process and calendar and said that the purpose of today's meeting is to review preliminary numbers and make sure that the Commission has the right list of considerations. He said that at the next meeting, on November 13th, the Commission would need to ask the actuaries for Phase 2 analysis. He proposed that the procurement team meet again preview the results of Phase 1 and to come to the November 13th meeting with a proposal for Phase 2. He said that the working group would

include Mr. Powell, Mr. Mennis, and Daniel Morgado from the procurement committee, as well as himself and Ms. Wass and asked anyone else who would like to participate to let him know.

Mr. Dormitzer said that he would like to come to the next meeting with the text for the preamble of the Commission's report. He said that he would like to review the potential strategies at the end of the meeting to see if the Commission needed to add to it or take anything off.

Mr. Dormitzer turned to the topic of EGWP. He said that his understanding of EGWP is that it stands for employer group waiver plan and that what an employer is waiving is the ability for participants to buy drugs anywhere and instead to buy them through a central clearing house in exchange for a subsidy from the federal government. Tom Vicente of Aon Hewitt said that there are a number of subsidies available to employers under EGWP. He said that EGWP has been around for years but is becoming more prominent with the Affordable Care Act and changes to Medicare Part D that make that program less advantageous.

Mr. Vicente said that retirees have to sign up for EGWP, and this is a complication as this is a population that is by definition over age 65. He said that an EGWP receives direct capitation payments and reinsurance payments from the federal government, closes the Medicare Part D "donut hole," and receives a 50% drug discount. Mr. Vicente said that there are a lot of things the commonwealth would have to do to take advantage of EGWP and that it is complicated. He said that the biggest benefit for a governmental unit comes on its accounting statement and that the accounting savings are larger than the cash flow savings.

Representative Barrows asked what EGWP means to the member and asked whether the member can still go to CVS and whether the member will still have access to drugs A to Z. Mr. Vicente responded that you can design these programs to mirror as much as possible the current program and that it does not need to be done as fully mail order. Mr. Vicente said that retirees have to enroll, which can be done from a group standpoint, and that access to prescriptions would not really change. Mr. Dormitzer asked whether that means that some prescriptions would have to be purchased by mail order. Mr. Vicente answered no and said that the employer's plan design directs that. Representative Barrows asked what percent of total Medicare spending is on prescriptions. David Czekanski of the Group Insurance Commission responded that about 15% of total GIC spending is on prescriptions, which includes both actives and retirees.

Senator Knapik asked which states are taking advantage of EGWP. Mr. Vicente said that it is the Affordable Care Act which has prompted private sector companies to look into EGWP. Representative Barrow said that EGWP is only for employers who offer retiree benefits, and not the regular Joe on the street with a Medicare Part D plan.

Mr. Powell asked whether a town has to enroll 100% of its post-65 retirees or if it can offer EGWP as an option. Mr. Vicente responded that EGWP would be a total replacement. Representative Scibak asked whether there is flexibility in how savings are allocated. Mr. Vicente said that the employer would have to make some decisions about the uses of revenue and could keep all of the savings or share it with the retirees.

Mr. Dormitzer asked what the retiree would see, if he or she can still get the same drugs at the pharmacy. Mr. Vicente said that, in most cases, the employer can make the program almost identical to the current program. Ms. Mitchell asked how the plan design influences the savings. Mr. Dormitzer asked whether

there are any savings if you design a plan that looks exactly the same. Mr. Vicente said that you get less back as an employer if you choose not to follow the CMS formulary.

Mr. Dormitzer said that this is a cost shift to the federal government and asked why the Commonwealth would not take it. Mr. Vicente said that you can only access the savings that make it really worthwhile if you run your plan on a calendar year basis and that the Commonwealth is on a fiscal year basis. Mr. Vicente said that if the Commonwealth keeps to a fiscal year basis, it would lose a lot of the cash savings. Ms. Mitchell said that this is a big deal and that running two major enrollments each year would mean two health fairs and two enrollment periods. Mr. Dormitzer asked whether the GIC could move everyone to a calendar year basis. Ms. Mitchell responded that the GIC could not because it would not have a budget for the calendar year.

Ms. Mitchell said that she understands the temptation of EGWP and that the GIC has been struggling with what to do. She said that the GIC has been unable to get firm answers on some questions, including whether it would have to switch to a calendar year basis. She said that the retiree drug subsidy returns $27 Million, which goes to the treasury, whereas with EGWP the GIC would keep the subsidy. Ms. Mitchell said that if the GIC would lose 50 percent of the savings by not switching to a calendar year basis, then it is not worth doing, and that you do not lightly move 64,000 people to another plan.

Ms. Mitchell said that the GIC's principle is to try to keep it simple. She said that there are about 6,800 couples with one spouse who is Medicare eligible and one who is not and that it would be complicated to have them enrolling in different years. She said that the GIC determines eligibility today but under EGWP, Medicare would make determinations. She said that members would have to individually petition CMS if they wanted to enroll later and that the GIC would have to provide a retroactive premium subsidy.

Ms. Mitchell said that the GIC currently provides low-income subsidies for 115 members and that this has to be done manually because it is so complicated. Mr. Czekanski said that the GIC's experience with operational issues comes from two small Medicare Part D plans that have four levels of subsidy. He said that there are four levels of subsidy available and that the GIC needs to compare the level of the subsidy to the level of the premium, which varies by the percent of the premium that the member pays. He said that the process is extraordinarily complicated and time consuming. He said that he would conservatively estimate that 4% of Medicare-eligible members, or 2,500 members, would be eligible for the low-income subsidy and that this would require a systems change.

Mr. Dormitzer said that if the savings are adequate, there would be an argument for investing in solutions. Ms. Mitchell said that a massive computer reboot takes years and that the GIC is already in the middle of one. She said that everything has a possible solution but the question is whether the price is worth the value you get back. She said that a huge number of retirees get their mail through a post office box and that CMS will not accept those addresses. She said that when Medicare became mandatory it took the better part of two ears to get every member's Medicare number.

Ms. Mitchell said that she would say to do it, if not for the fiscal year issue. Mr. Mennis said that the savings from EGWP are about $200 Million over ten years and that that is cash and not accounting. Ms. Mitchell said that savings is only if the GIC goes to a calendar year basis.

Representative Barrows asked why there are six Medicare plans and not just one. Ms. Mitchell said that there are many reasons. She said that people like to age into the same plan they are currently on and that some insurers, such as Fallon, are committed to taking care of retirees. Mr. Barrows asked whether other members have Medicare Advantage plans. Ms. Mitchell said that the GIC's new procurement states that there will be no more than two Medicare Advantage or what are called complimentary, supplementary, or wrap-around plans.

Mr. Mennis asked whether there is a way to get a sense of the costs to split enrollment for the biggest group of retirees and to make the systems changes required to issue low-income subsidies. Mr. Dormitzer said that, as a group, the Commission was going to have to ask whether $200 Million in savings over ten years is worth keeping EGWP on the table. He said that building major state IT infrastructure is major but that $200 Million is also major.

Daniel Rhodes from Segal Co. introduced the topic of VEBAs. Mr. Rhodes said that VEBAs can be used for a lot of things but that they received a lot of press in the context of the Big Three automakers using them as a way to discharge their retiree health obligations. Mr. Dormitzer said that VEBA stands for Voluntary Employee Beneficiary Association and that employers deposit money for the benefit of employees. Mr. Rhodes said that the VEBA is just the trust and that the plan you put with the VEBA can vary.

Representative Barrows said that the employer is off the hook and that the union, or whoever runs the trust, takes over. Mr. Rhodes said that that is not the only way a VEBA can be set up. He said that the other model seen in the public sector context is a VEBA for supplemental benefits, such as an HRA, that can be used for premiums, co-pays, or deductibles. Mr. Rhodes said that there is a lot of flexibility in how a member can use the money in a VEBA and that VEBAs can be established for retirees only.

Mr. Dormitzer said that EGWP is a thing to do to save money, while a VEBA is a way to fund and the employer would need to decide what to do. Ms. Mitchell said that a VEBA is a way for an employer to divest itself of future responsibility. Mr. Rhodes said that is not the only way to set up a VEBA.

Representative Barrows said that a VEBA is not applicable for the arrangement the Commonwealth has, because the Commonwealth does not have money to set aside and could set up an HSA or something similar without establishing a VEBA. Representative Scibak said that he was troubled that a VEBA would have to be coupled with an ERISA-governed plan. Mr. Mennis said that transferring the burden to employees is not something that the Commission wants to do and that an HRA or HSA seems outside its scope.

The Commission moved to the preliminary actuarial analysis. Ms. Wass asked Mr. Mennis to recap any decrease in the liability resulting from municipal health and pension reform. Mr. Mennis said that the liability decreased by about 10% from municipal health reform, or up to $2 Billion, and that the Executive Office for Administration and Finance is working on updated projections of the cost savings. Mr. Powell said that he is comfortable with that estimate. Mr. Mennis said that the pension reform passed in November of last year applies almost exclusively to new employees, so the savings so far are modest. He said that he is projecting $5 Billion in savings and that changes in retirement patterns will also change how people take up retiree health benefits.

Mr. Vicente said that the cost of retiree healthcare for those under 65 is close to $11,000 per year and the cost for those over 65 is close to $5,000 per year and that these costs go up with medical and regular inflation. He said that the present value of the benefit at the time of retirement is $114,000 for a single individual who retires at age 62. Mr. Mennis said that this figure is just the present value cost and that the actual payments are something like $200,000. Mr. Dormitzer asked whether the benefit was more expensive for people that have spouses. Mr. Vicente said yes and that this figure is just for a single person. He added that the earlier you retire, the longer you receive the benefit. Ms. Mitchell said that the plan shown is Indemnity coverage, which is more expensive, which is why the GIC has other plans.

Representative Barrows asked what the average length of service is for current retirees. Mr. Vicente said that he did not have the historical average. Mr. Mennis asked whether he could estimate this based on five years of retirement data. Representative Scibak said that this had been calculated for teachers and other groups when doing pension reform.

Mr. Dormitzer said that the $114,000 figure is interesting and that the benefit is $114,000 for both part-time and full-time employees. Representative Barrows said that if you compare it, it is a much larger benefit for part time employees. Shawn Duhamel said that the Commission should keep in mind that these figures are for the state, which has a stricter part time policy, while municipalities have the option to determine part time policies locally.

Representative Barrows asked how many retirees there are. Mr. Vicente said that there are 60,000 actives in Group 1 and about 65,000 retirees or 70,000 including surviving spouses. He said that about 80 percent of these, or 56,000, receive benefits. He said that the distribution of benefits across groups roughly corresponds to the size of their retiree population but that Group 4 tends to retire earlier and therefore receives a larger benefit. He said that most savings are driven by Group 1.

Ms. Mitchell asked what the projections would look like if you applied Chapter 224. Mr. Vicente said that he had done projections restricting inflation to something closer to regular inflation.

Mr. Vicente said that these projections take into account recent pension reform, which has already increased retirement age for new employees by five years.

Mr. Dormitzer said that the graph of projected future payments made it look like the baseline projection was that payments would double over ten years and that a change that saves 24% would bring liability growth from $1 Billion to $750 Million.

Representative Barrows asked whether an individual would still need to get a pension in order to get retiree health care. Mr. Mennis answered yes but said that an individual could get a pension and not be eligible for retiree health. Mr. Powell said that municipalities can have local rules that prohibit retirees with service breaks from collecting health care benefits.

Senator Knapik asked what percentage of state employees work a whole career. Mr. Vicente said that an average employee in the Commonwealth today has fifteen years of service but that there is a huge range. He said that when you increase the years of service, you cut off a huge number of employees and that, unlike with increasing the minimum age, you can never age into eligibility.

Representative Scibak said that individuals who have left service are more likely to leave their dollars in and are starting to think about where they are going to get their health insurance. Representative Barrows said that the $114,000 retiree health benefit is more than their pension. Ms. Mitchell said that the Commission should be able to calculate the number of people who have left money in the pension system. Bob Johnson of the Group Insurance Commission said that deferred retirees have to pay 100 percent of their premiums. He said that they are only a small number, approximately 300, and that they generally have employers who pay their premiums because they are cheaper. Mr. Vicente said that there are approximately 2,400 people who have not qualified for retirement but have left money in the retirement system. Representative Barrows asked what the definition of deferred retirees is, and Ms. Mitchell answered that deferred retirees are those with twenty years of service or 55 years of age who have left state service to go elsewhere.

Mr. Mennis said that the change with the single biggest impact is longer service requirements. Mr. Dormitzer said that the impact of longer service grows over time, compared to other changes which have a diminishing impact. Ms. Mitchell said that the Commission should remember that the longer people stay, the higher they go on the salary scale, so that costs increase on the pension side. Representative Barrows said that people also put more into pensions as their salaries increase.

Mr. Morgado asked whether the impacts of combining increased minimum age and years of service were cumulative. Mr. Vicente answered that the numbers may not work out exactly but that they would be close.

Mr. Powell said that these results show all current employees or all new employees, but the Commission would need to discussing changing the game on those who are two or three years out from retirement. Representative Barrows said that the Commission should look at the pension vesting schedule as well in order to get into the psyche of someone approaching retirement. Mr. Dormitzer responded that when the actuaries get to Phase 2, their analysis will address those questions.

Mr. Mennis said that it might be of interest to know how much employees pay for pension and health combined and that the best deal right now is for employees who retire at 10, 15, or 20 years. Mr. Vicente said that a pro-rated subsidy provides something for mid-career employees but not the same value proposition as the current benefit.

Mr. Vicente said that capping the subsidy limits the costs paid by the employer and that the rest is paid by the retiree. He said that the actuarial analysis does not show any savings from retirees who might drop coverage because they can no longer afford it. Al Gordon asked whether Mr. Vicente could quantify the savings from the assumption that people do not take up insurance. Mr. Vicente responded that these numbers do not reflect that assumption.

Representative Barrows asked whether capping cost growth would result in the benefit becoming a defined contribution plan. Mr. Czekanski said that Medicaid plans each have different premiums and that the percentage that the retiree pays stays the same while the amount differs. Representative Barrows said that some private sector employers offer a subsidy that is a percentage of the lowest cost plan and those who want the Cadillac plan have to pay more. Ms. Mitchell said that she was not opposed to the idea but that it would have to be risk adjusted and that the statute the GIC operates under makes this

appear not legal. Mr. Vicente said that this would be a step towards a defined contribution plan but that the state would still provide a defined benefit and would have many other steps to go.

Mr. Mennis asked Mr. Vicente to clarify a reference in his presentation to the Affordable Care Act. Mr. Vicente said that the Affordable Care Act includes the establishment of exchanges and that some employers would provide a defined contribution, which employees could use to purchase from medical plans from the market. Representative Barrows said that they would get to change their choice of plan every year and could choose a new plan if they got sick. Ms. Mitchell said that if plan premiums are not risk adjusted, then premiums could increase as sick people go to those plans. Senator Knapik asked whether exchanges were an effective strategy for government. Mr. Vicente said that an employer could do something similar to these private exchanges, and that maybe the GIC could be the mechanism, but that this was not the same as the current state exchange.

Mr. Dormitzer asked Kathleen Riley of Segal Co. to speak to part time policies. Ms. Riley said that part time policies are driven by retirement boards, which can set the number of hours required for creditable service. She said that most boards require twenty hours but that this number is higher in some cases. She said that boards can define how to credit part time service and, at one extreme, give one year of credit for one year of service. She said that the other way to credit service is to adjust credit and, for example, give 50 percent credit for half time and that this narrows the pool of those eligible for pension benefits. She said that she does not have a good sense of the number of part time employees in the municipalities and that this will vary with city and town policies.

Ms. Mitchell said that at the state level, employees must work 18.75 hours for those on a 35 hour work week or 20 hours for those on a 40 hour work week to qualify as a part time employee. Shawn Duhamel added that the state pro-rates service for twenty hour per week employees so that twelve months of service would result in six months of credit. Mr. Morgado said that he was told there is a difference for teachers but was not sure what it what the difference is. Mr. Duhamel said that higher education employees have the option to join the state retirement system or an alternative system, with the idea being to offer portability for a transient population. He said that he believes those who select the alternative system are still eligible for the GIC. Representative Scibak added that the decision of which system to join is irrevocable.

Mr. Mennis asked whether the issue is not whether the Commission could or should suggest that municipalities follow the same policy as the state. Representative Scibak said that historically municipalities had the problem of people on stipends who were eligible for retiree health and whose retiree health benefit was greater than the cost of the stipend. Catharine Hornby from the GIC said that elected officials are exempt from hours requirements and that in some cases elected officials decline benefits as actives but still accrue retiree benefits. Ms. Hornby said that this is troubling, because the GIC gets these people when they are most expensive.

Mr. Dormitzer asked Mr. Duhamel to speak to surviving spouse policies. Mr. Duhamel said that less than fifty municipalities offer zero subsidy to survivors. He said that the majority of municipalities are doing the right thing and covering survivors and that provide the same subsidy as they do to retirees. He said that he would like to see municipalities that opt into the changes proposed provide a subsidy of at least 50 percent and that in the future he would like survivors to receive a subsidy of 80 percent. He said that

there are some one-off cases of survivors who are wealthy or who are also public employees themselves but that the majority of survivors are living in poverty.

Ms. Mitchell said that the state provides a 90 percent subsidy to survivors. Mr. Dormitzer said that that is a higher subsidy than before they became a survivor and asked why the subsidy increases. Ms. Hornby answered that, over time, new retirees have been required to pay more but that there is no way to classify survivors as belonging to a particular class of retirees. She said that as the ship has moved along, survivors have not.

Representative Barrows asked whether there could be cases of state employees who took life-certain pension and whose survivors still get retiree health benefits when they die. Mr. Duhamel said that social security survivor benefits are more robust than what Massachusetts offers. He said that the older the employee, the more generous the benefit, but that these benefits are small for those who die in their thirties and there is no built-in dependent benefit.

Mr. Dormitzer said that it is odd that municipalities have different policies and also odd that when a retiree dies, the state's share of the survivor's premium goes up. Ms. Mitchell said that this is an emotional issue and that the legislature could change the policy. She estimated that there are about 3,000 survivors at the state level.

Mr. Dormitzer said that he would go through the list and make sure that the Commission had the right list of potential strategies. He asked whether anything on the list needed to go and whether anything needed to be added. He said that there had been talk of having a risk-adjusted premium and of tying the subsidy to the lowest or a medium cost plan. Ms. Mitchell said that was an idea the GIC could look into but that it might require a change in the law.

Representative Scibak asked whether the GIC had done the same for retirees as it had done for actives to encourage members to enroll in lower cost plans. Ms. Mitchell answered no, most retirees are in Medicare. Representative Scibak asked whether it was possible to incentivize enrollment in lower cost plans. Mr. Dormitzer said that that is what the private sector is doing. Representative Barrows said that this was similar to a defined contribution, which provides a fixed amount per month and those who want the most expensive plans pay for them. Representative Barrows said that premiums should reflect the benefits offered, and Ms. Mitchell responded that premiums are a combination of benefits offered and the population covered. Ms. Mitchell said that the GIC's philosophy has been to procure plans and to treat them all equally and not to favor lower cost plans. She said that for indemnity plans, which are the highest cost, the Commonwealth pays a lower share of the premium but that she would like to change that.

Mr. Dormitzer suggested adding cost-sharing based on a risk-adjusted premium to the list of potential strategies. He said that the Commission should consider offering a best practice or a mandate for municipalities to adopt the state's part time policy. He asked whether, to avoid running off the tracks in the future, the Commission could articulate some policy where someone has to do something about it and asked how the Commission makes thinking about OPEB a part of the public policy in the future.

Mr. Gordon asked what health care cost growth was assumed in Aon Hewitt's projections, and Tom Vicente said that it was five percent in the long run. Mr. Dormitzer said that the cost of OPEB doubles,

so this is a population issue. Mr. Mennis said that these projections are if care cost containment is halfway successful and that the Commission has also asked the actuaries for projections with health care cost growth at four percent. Representative Barrows said that maybe the projections should tie to the same target as Chapter 224.

Mr. Duhamel said that the question is who will pay and that capping cost growth would hold retirees responsible if the state does not meet cost containment targets. He said that members are not responsible if Partners' costs go up.

Mr. Dormitzer said that the public policy objective is that if the OPEB liability is going up, someone quantifies what it would take to control it. Mr. Powell said that it should be a commission similar to this one with a composition of different interests and not a single person. Mr. Morgado asked whether it would be the Executive Director of the GIC that would pull the trigger to create the Commission so that this type of collaborative decision-making could take place.

Senator Knapik asked what the barometer for the Commission's success is. He said that the DOR has a process to look at quarterly figures but that the Commission does not have a baseline of success for OPEB other than that it needs to do something. He asked how the Commission would know if it was off track. Mr. Dormitzer responded that it could be something like the OPEB liability is 10 percent or 15 percent higher and that this would indicate that there has been something else going on. Mr. Mennis said that they could compare OPEB growth to growth in gross state product, as the health care cost containment legislation does, and that at the municipal level could compare it to property tax revenue.

Mr. Duhamel said that with the issue of survivors, he has had trouble getting his arms around the data and that there is no regulatory agency overseeing municipal health care. He suggested that some part of state government be responsible for collecting data, similar to how municipalities submit reports to PERAC, and that the first step is gathering information. Mr. Dormitzer proposed taking index to inflation off of the list but keeping on this broad discussion.

Mr. Dormitzer suggested crossing out VEBA because it does not have an application here. Mr. Mennis said that he projected that an active contribution of one percent of salary would fund fifteen percent of the liability in year 30. Mr. Duhamel asked whether this was fifteen percent of the liability before changes, and Mr. Mennis answered yes. Mr. Duhamel said that if these changes were made, this number could potentially be larger.

Mr. Dormitzer asked about sick leave and vacation leave. Representative Barrows said that the question is what the state is paying now for unused leave. Mr. Dormitzer proposed taking sick leave and vacation leave off of the list and said he was not sure he saw the nexus with what the Commission is talking about.

Mr. Dormitzer proposed keeping EGWP on the list. Ms. Mitchell said that that was perfectly appropriate but that she objected to categorizing EGWP as good governance. Mr. Dormitzer suggested moving EGWP under benefit design.

Mr. Powell said that he wanted to see procurement as a part of the potential strategies because municipalities can pay millions without ever going out to procure and that seems inequitable. Mr. Dormitzer suggested that this might be grouped with survivor and part time policies under best practices.

Mr. Morgado said that he had no objections but asked how municipalities would get around collective bargaining issues. He said that the GIC has more capacity for unilateral action.

Mr. Dormitzer asked Ms. Mitchell to provide an update on the new health plan procurement. Ms. Mitchell said that the GIC went out to bid last week and had its bidders conference yesterday. She said that the procurement called for bids with rates not increasing more than two percent next year and included penalties for failure to get people into integrated delivery systems or for failing to meet budget targets.

Ms. Mitchell said that in five years, providers would need to bring their rates down by two percent. Mr. Dormitzer asked what tools the providers would have. Ms. Mitchell responded that the tools included limited network plans, contracting, actuarial analysis, and disease management support. She said that the effect on OPEB would be a ripple effect but not a direct effect and that it benefits everybody if total health care costs go down.

The meeting was adjourned.